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FISCAL IMPACT STATEMENT

LS 7346

BILL NUMBER: HB 1457

NOTE PREPARED: Jan 18, 2015

BILL AMENDED:

SUBJECT: Higher Education.

FIRST AUTHOR: Rep. Truitt

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill permits the board of trustees of a state educational institution that has a research intensive campus to directly hold equity in a private entity under certain conditions.

It permits a public benefit corporation to merge with a state educational institution, without court approval, if the public benefit corporation is controlled by the state educational institution.

The bill permits the Indiana Economic Development Corporation (IEDC) to designate a University Innovation District (UID) for a research intensive campus in which the incremental income taxes from employees working in the district are distributed to the research intensive campus for dedicated purposes. It also provides that a Certified Technology Park (CTP) that is associated with a research intensive campus may be reclassified as a UID under certain conditions.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *University Innovation Districts (UID):* A UID is a geographic economic development program that provides state income tax revenue to research universities that engage in research and commercialization activities. To receive a UID designation, a university must submit an application to the IEDC. The IEDC will determine if the university meets all the qualifications within the bill. If the application is approved, the university must create a UID fund to receive state incremental income tax revenue distributions. The bill specifies how the money deposited in the UID fund can be used.

In addition, a university may request that an associated Certified Technology Park (CTP) be reclassified as a UID. For a CTP to be reclassified as a UID, it must meet all the requirements of the UID program, and it

must have reached its lifetime tax capture limit of \$5 M. Once a CTP becomes a UID, it loses its former designation and may not be reclassified as a CTP again.

[There are four state educational institutions that are research intensive campuses: Ball State University, Indiana University Bloomington, Indiana University-Purdue University Indianapolis, and Purdue University West Lafayette.]

Private Equity: The bill allows a state educational institution with a research intensive campus to directly hold equity in a private entity. The board of trustees can hold equity in a private entity if:

- The private entity is controlled and actively managed by the institution.
- It results in a public or charitable purpose for the benefit or use of the students of the institution.
- The equity is not held for speculation.

This provision alone should not impact state expenditures because the equity must be acquired from property other than state appropriations or other public money provided by other government entities. Ultimately, the impact of this provision will depend on how the qualifying institutions exercise this authority.

Mergers: The bill allows a state educational institution to merge with a public benefit corporation without prior court approval, if the public benefit corporation is controlled by the state educational institution. This provision will reduce administrative costs to state educational institutions when conducting mergers with public benefit corporations. The total impact of this provision is indeterminable. The impact will vary depending on the obligations and assets of the merging public benefit corporation.

Department of State Revenue (DOR): The DOR will incur additional expenses to annually compute the amount of incremental state income tax revenue associated with each UID. The DOR has expertise administering similar tax capture areas like CTPs and Professional Sports Development Areas. The DOR's current level of staff and resources should be sufficient to implement the provisions within the bill.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to administer the UID program. The IEDC's current level of staff and resources should be sufficient to implement the provisions within the bill.

State Research Universities: A state educational institution will incur additional administrative costs if it is granted a UID. The institution must provide an annual report to the IEDC on or before July 1, and it will likely have to provide information to the DOR. All additional administrative costs will likely be offset by the distributions of state revenue the institution will receive.

Secretary of State (SOS): The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Additional Information - Certified Technology Parks (CTP): The CTP program was created to help locate businesses involved in high-technology to Indiana and facilitate job creation by these businesses. CTPs are authorized to capture incremental revenue from Sales Tax, state Income Tax, and local option income tax. Each CTP has a lifetime revenue capture limit of \$5 M. As of October 2014, 24 CTPs had been designated and seven had reached the lifetime revenue capture limit.

Explanation of State Revenues: *University Innovation Districts (UID)*: The bill provides an incremental state income tax distribution to state educational institutions with an active UID. The distribution equals the state income taxes paid by employees working within the UID in the current fiscal year minus the income tax base period amount. The base period amount is the amount of state income taxes paid by employees within the UID in the fiscal year preceding the UID designation. There is no limit on the amount of state income tax a UID can capture. The bill will decrease state General Fund revenue by an indeterminable amount each year beginning as early as FY 2016. The actual revenue loss associated with the bill depends on the number of UIDs designated by the IEDC and the economic activity occurring in the UIDs.

The state income tax captured by the existing Certified Technology Parks (CTPs) can provide a benchmark. There are seven CTPs that have reached the \$5 M state revenue capture limit. The median annual state income tax capture of those CTPs was about \$602,000.[The maximum single year state income tax capture was \$3.1M by the Downtown Indianapolis CTP, Indiana University Emerging Technologies Center.] If the IEDC reclassifies two of the existing CTPs to a UID, it may reduce state General Fund revenue by \$1.2 M each year.

Secretary of State (SOS): Allowing state educational institutions to merge with public benefit corporations without prior court approval may increase the number of mergers which will likely result in an indeterminable, but likely insignificant, increase in state General Fund revenue from filing fees. [The fee for a nonprofit corporation to file articles of merger is \$20 if filed electronically. Otherwise, the filing fee is \$30. The fees are deposited into the state General Fund.]

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation; Treasurer of the State; Secretary of State; state educational institutions.

Local Agencies Affected:

Information Sources: Indiana Department of State Revenue; Office of Fiscal and Management Analysis, *Indiana's Geographically Targeted Development Programs: Certified Technology Parks*, October 2014.

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